

## THE BERKSHIRE GAS COMPANY

### Testimony of John Puig

D.T.E. 00-30

D.T.E. 00-36

Please state your full name, business address and the position you hold at First Albany Corporation.

My name is John Puig and my business address is 30 South Pearl Street, Albany, New York 12207. I am Senior Vice President in the Public and Project Finance Group of First Albany Corporation.

Please describe your educational background and business experience.

A. My resume is attached to this testimony as Attachment A. My primary responsibilities at First Albany include arranging debt financing for various clients and projects, including public utilities. I have provided investment-banking services to the Berkshire Gas Company for approximately five years in connection with its debt financing.

Q. Are you familiar with the financing that is the subject of the Company's petition in docket DTE 00-36.

A. Yes, I am familiar with such petition. I have assisted Berkshire Gas in analyzing the various alternative structures to finance its new liquefied natural gas ("LNG") plant. I also assisted Berkshire Gas in approaching a variety of banks with respect to the financing of the plant and participated in the negotiation of the potential terms and conditions of such arrangement.

Q. Please describe you initial responsibilities with Berkshire Gas in terms of financing of the LNG plant.

A. I discussed Berkshire Gas' financing requirements and objectives extensively with the Company's Senior Vice President, Treasurer and Chief Financial Officer, Mr. Marrone. Together, we considered and assessed the merits of various financing alternatives. Berkshire considered short-term and longer-term financing alternatives. The analysis considered, among other things, the limitations and conditions of the Company's existing debt instruments, the implications of the pending merger with Energy East Corporation, probable investor expectations and requirements and regulatory concerns raised by the Company. The analysis began during the construction period of the plant and continued until the time of the Company's filing.

Q. Please describe the initial conclusions of your analysis with the Company

A. This broad-based assessment initially concluded that an interim approach involving a lease was the preferred approach in terms of financing the plant. We believed that the Company would be able to secure attractive terms and to secure the benefits of an off-balance sheet approach. The prospect of a synthetic lease could also secure some of the benefits of ownership. We asked eight banks if they would be interested in arranging such a financing with Berkshire Gas. Two banks agreed to finance the plant pursuant to a lease with generally comparable terms. Berkshire Gas elected to work with KeyBank's leasing division because the Company wished to establish an additional banking relationship. Berkshire Gas previously had maintained relations with BankBoston and Fleet that were combining by merger. A new banking relationship was therefore desired. However, as the transaction was analyzed in greater detail, and various accounting issues were uncovered, we were advised by the Company that the lease structure could not be implemented, particularly given the plant's importance in terms of reliability of the utility operation. Accordingly, further analysis of the various options was performed.

What options did you evaluate with Berkshire Gas at that time?

We re-evaluated traditional financing options at that time. We considered long-term and short-term alternatives. We considered operating leases. We reassessed all of the factors described above, such as the terms and conditions of Berkshire Gas' existing debt instruments, the pending merger and market conditions. We determined with Berkshire Gas that an interim financing approach was the most appropriate overall structure. We concluded that an intermediate term (i.e., three-year term) loan with limited amortization of principal was the preferred option. We concluded with Berkshire that such an approach should have the least cost in the short term and should not force the Company to the long-term debt market for a relatively small financing. Generally, a five million dollar issue is too small to attract the interest of most insurance company investors. Longer-term financings typically have much more punitive pre-payment provisions. The so-called "make-whole" premiums required by insurers often makes pre-payment and refinancing prohibitively expensive. Given the increases in long-term rates since the Federal Reserve started its tightening activities, I believe that it may not be prudent to lock in a long-term rate today that requires the sacrifice of the right to pre-pay. My belief is based, in part, upon the pending merger with Energy East. Larger companies typically have lower costs of capital and the proposed debt structure could be refinanced. Generally, a long-term

financing would likely have much higher transaction costs. Generally, bank financings on the other hand, like the one proposed, typically offer more flexibility with respect to covenants and banks can be easier to work with in terms of securing waivers. I believe that this could be the result of the growing sophistication in banking and the growth of many regional banks into national institutions. Thus, in my experience, banks generally have been willing to offer funding terms that are increasingly favorable to smaller, lower investment grade companies like Berkshire Gas.

Did you evaluate the terms of the proposed financing with KeyBank?

Yes, I did. The proposed loan offers a number of benefits for Berkshire Gas. First, the proposed financing offers competitive interest rates at LIBOR plus 215 basis points or prime plus 50 basis points. Given market conditions and my experience, I do believe this is a favorable transaction. The financing also comes with relatively attractive and flexible terms. For example, pre-payment comes without penalty and covenants with respect to operation are not overly restrictive. The transaction therefore should permit the implementation of a long-term financing when appropriate. Finally, the financing may be completed on a relatively expedited basis, which I understand to be consistent with Berkshire Gas' regulatory requirements.

Please summarize your conclusions with respect to the proposed financing by Berkshire Gas of its LNG plant.

I believe that the proposed financing of the new LNG plant on an intermediate or interim basis addresses the main concerns of Berkshire Gas in an attractive, competitive manner. First, the proposal preserves the flexibility to ultimately go to the long-term market at the most attractive time. My belief is that Berkshire Gas should be able to secure more favorable terms after the merger. Second, the terms and conditions offered by KeyBank are relatively flexible and not overly punitive. Third, I understand that the financing may be timed in a manner that is consistent with Berkshire Gas' regulatory strategy.

Does that conclude your testimony?

A. Yes it does.